

VZCZCXRO9484  
PP RUEHAG RUEHBC RUEHDE RUEHKUK  
DE RUEHLB #2258/01 1861515  
ZNY CCCCC ZZH  
P 051515Z JUL 06  
FM AMEMBASSY BEIRUT  
TO RUEHC/SECSTATE WASHDC PRIORITY 4455  
INFO RUEHEE/ARAB LEAGUE COLLECTIVE PRIORITY  
RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY  
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BEIRUT 002258

SIPDIS

NOFORN  
SIPDIS

STATE FOR NEA/ELA  
STATE PASS USTR  
TREASURY FOR MNUGENT  
USDOC FOR 4520/ITA/MAC/OME  
NSC FOR ABRAMS/DORAN/SINGH

E.O. 12958: DECL: 07/05/2016  
TAGS: [EAIR](#) [EFIN](#) [PREL](#) [ECON](#) [PGOV](#) [BEXP](#) [LE](#)  
SUBJECT: MGLE01: MEA LIKELY TO CHOOSE AIRBUS BECAUSE OF  
DELIVERY DATE

Classified By: Ambassador Jeffrey Feltman. Reasons: 1.4 (b) and (d).

¶1. (C/NF) Summary. The Ambassador and econoff met with Middle East Airlines (MEA) President Mohammad Hout on June 28 and Edward Schachle, Sales Director for Boeing in the Middle East. MEA cannot afford short-term leases on its aircraft to "bridge the gap." In nine to twelve months, MEA will be considering a deal for four additional wide-bodied aircraft for 2012 or 2013; Boeing may encounter a similar problem of needing to "bridge the gap" between when the planes are needed and when they can be delivered. End Summary.

MEA IS  
EXPANDING ITS FLEET  
-----

¶2. (C/NF) Hout briefed the Ambassador on MEA's five-year expansion plan. MEA is interested in purchasing four wide-bodied aircraft and four narrow-bodied aircraft within the next two to three years to expand its fleet from nine to fourteen aircraft. MEA would like to replace three of its currently leased wide-bodied jets and purchase an additional aircraft. In 2012 or 2013, MEA would like to purchase an additional four wide-bodied aircraft. Hout said that he had asked Boeing to submit offers for the four wide-bodied jets for one aircraft in May 2008, one aircraft in October 2008, and two aircraft in the first quarter of 2009. Hout said that Boeing currently does not have an aircraft that competes with the A330; Boeing told him that the 777-200 was out of production and not suitable for MEA and the 787 would not be available until the end of 2012. Airbus with its A321 aircraft is currently competing with Empresa Brasileira de Aeronautica SA (Embraer) for delivering four narrow-bodied jets in 2009 and 2010.

BOEING CANNOT  
"BRIDGE THE GAP"  
WITH DELIVERY OF JETS  
-----

¶3. (C/NF) Hout said he was an admirer of Boeing's technology and would "sign right now," if Boeing had planes available. He said that if he could get an early delivery of the 787s he would consider delaying MEA's expansion plans, but MEA would need assistance for "bridging the gap" between when MEA needs the planes and when the 787s could be

delivered. Hout said he would "kill the company" if he ended up leasing four planes for four-and-a-half years, as lease rates have increased dramatically. Short-term leasing ends up being far more expensive than purchasing the aircraft from Airbus. Schachle confirmed to the Ambassador that he was working under a "frustrating set of circumstances," where he could offer a deeper price discount, but there would still be problems with the delivery date. Hout told the Ambassador that there were other elements of Boeing's package that would be difficult to sell to the MEA board, even if Boeing could offer a better delivery date. Airbus was only requiring 15 percent of the financing pre-delivery, while Boeing was asking for 30 percent of the financing pre-delivery, equivalent to USD 49 million.

AIRBUS AGGRESSIVELY  
PURSUING MEA BEFORE JULY 17 SHOW  
-----

¶4. (C/NF) According to Hout, Airbus has given MEA an aggressive offer that MEA needs to respond to before the UK Farnborough Air Show on July 17. Hout said that the A330s Airbus was offering would only be available before the air show, and the offer would be withdrawn if a decision wasn't made in Airbus's favor before the show. Given all of the negative press about Airbus, the company is willing to discount prices in order to be able to announce deals at Farnborough. Hout said Boeing should think of "changing

BEIRUT 00002258 002 OF 002

their marketing strategy" with regards to MEA, as the airline could offer Boeing "a foothold" in the Middle East. Hout told the Ambassador on July 5 that MEA's board of directors would give Boeing until July 11 to come up with a proposal to fulfill MEA's delivery date needs. If Boeing can't satisfy the delivery dates, MEA will then announce a deal with Airbus.

POSSIBLE DIFFICULTIES WITH  
SECOND TRANCHE OF PLANES  
-----

¶5. (C/NF) Hout told the Ambassador that only USD six million, a small portion of the Airbus offer for the four wide-bid aircraft, was linked with future purchases of Airbus aircraft, making the deal to supply four planes for 2008 and 2009 essentially separate from the deal to supply four planes for 2012 and 2013. Hout insisted that the later competition was still "open." When the Ambassador asked Schachle if Boeing's production schedule would be pushed back to 2016 or 2017 when MEA begins to look for expanding its fleet by four wide-bodied planes in nine to twelve months, Schachle conceded that Boeing could be facing a similar situation of needing to bridge a gap and help MEA lease planes for three to four years. He lamented the fact that he could not "set aside" aircraft for Lebanon or Jordan as the production allocation doesn't allow for a "hold" for a particular country before a deal is signed.

ENGINE CONTRACT IS NEXT  
-----

¶6. (C/NF) Hout told the Ambassador that he would need to decide on a new contract for engines for MEA's aircraft within the next four months. Pratt and Whitney, General Electric, and Rolls Royce are competing for the contract. Hout said that GE and Rolls Royce were the main competitors for the contract. Hout said GE's maintenance costs per hour are good, but GE still needs to improve on price in its offer. He said Pratt and Whitney did not currently have a serious offer, as they appear to be awaiting the results of a prospective deal with India.

COMMENT  
-----

¶7. (C/NF) The Ambassador has also discussed the Boeing bid with two of MEA's directors, Michel (Mickey) Tueni and Marwan Salha, as well as with the Governor of the Central Bank Riad Salameh on July 4. (The Central Bank owns 99 percent of MEA.) These three interlocutors confirmed what we feel is Hout's sincerity: MEA would like the 787s and the new technology on offer, but the conflict between MEA's scheduling needs and Boeing's anticipated delivery dates cannot be resolved. While the chances thus seem slim to none that MEA and Boeing will come to a deal for the first four wide-bodied jets MEA seeks, we hope that the door is open for a Boeing solution to the second tranche of four wide-bodied jets. But even that will require some kind of deal on timing, as Boeing's production schedule is likely to be pushed even further into the future by the time MEA is ready to sign for four additional aircraft.

¶8. (U) This message may contain proprietary business information and should be protected accordingly.  
FELTMAN